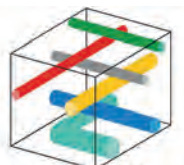




inspiring
innovation
creating
success

PipeHawk plc
REPORT & ACCOUNTS
2017



PipeHawk plc
Underground Intelligence

PipeHawk plc is a dynamic business offering advanced engineering solutions to challenging technical requirements across many industries.

We are the global market leader in ground probing radar technology with many applications including civil engineering and land mine detection. Our technology provides a superior detection of hidden underground objects and features, dramatically reducing risk, improving safety and saving substantial time and money during identification and excavation.

Adien Limited, a wholly owned subsidiary, is a leader in the field of utility detection and mapping. Its survey teams provide information that is critical in the design processes of almost all construction projects that involve breaking the ground.

QM Systems, a division of PipeHawk PLC, is a market leader in providing solutions and services for electronic system design and manufacture, test equipment, transfer systems and automation and assembly solutions to the automotive, aerospace, rail and other related industries.

Powered by excellent people our reputation is built on exceeding our customers' expectations in delivering innovative, cost effective quality solutions in all aspects of our business.

Through our energetic, innovative and dynamic approach together with our significant investment in R&D we will continue to strengthen our market leading positions.

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Directors	Gordon G Watt (Executive Chairman) Soumitra P Padmanathan (Finance Director) Robert Randal MacDonnell (Non-Executive)
Secretary	Soumitra P Padmanathan
Nominated Adviser and Broker	Allenby Capital Limited 5 St Helen's Place London EC3A 6AB
Registered number	3995041
Registered office	Manor Park Industrial Estate Wyndham Street Aldershot Hampshire GU12 4NZ
Auditor	Crowe Clark Whitehill LLP St Bride's House 10 Salisbury Square London EC4Y 8EH
Solicitors	Gowling WLG 4 More London Riverside London SE1 2AU

“19% increase in turnover”

I am pleased to report that turnover for the year ended 30 June 2017 was £5.7 million (2016: £4.8 million), an increase of 19%. The Group incurred an operating loss in the year of £16,000 (2016: £858,000 loss), a loss before taxation for the year of £193,000 (2016: £1,017,000 loss) and a profit after taxation of £179,000 (2016: £753,000 loss). The profit per share was .54p (2016: 2.28p loss).

QM Systems

2016/17 has seen a marked improvement in performance both in revenue and profit generated. Turnover for the year was £4.05 million (2016: £3.42 million) an increase of approximately 17 per cent. Operating profit for the year was £42,000 (2016: £348,000 loss). This marks a very significant turnaround in profitability for the year. The increase in profitability was fuelled through further improvements to efficiency which was partly due to changes undertaken in the previous year and further changes during 2016/17, and through a growth in revenue which was achieved with a slightly lower headcount at 30 June 2017.

A number of key projects have been successfully delivered during the year and we continue to maintain an excellent record for delivery and support with our existing client base. Many of QM System's existing clients are now placing regular additional business. In addition we have established business with five new clients during the period. Recruitment of a new Business Development Manager in September 2016 has led to a marked increase in monthly quotation activity. This has provided access to a number of new and potential clients across industry sectors that we previously did not cover. These are tending to be for larger contracts which, typically, take longer to be awarded. During the last 12 months the size, scope and value of QM Systems' quotes have significantly increased and most of these projects have still to be awarded.

Interest in our own Manufacturing Execution System has continued to gain momentum and we have added two new clients to the growing client base for this product. This

system is unique in its ease of configurability by our end clients and enables QM Systems to offer a complete production line package including manufacturing, assembly, ongoing test and final test which when combined with our own CAA system creates a 'one stop shop' for our clients production requirements. This approach has considerable flexibility and scalability and this is leading to a lot of interest.

After the political uncertainty of the previous two years it is reassuring to see a double digit growth in revenue and a return to a healthy profit during 2016/17. We aim to build on these successes for the current financial year as we drive this dynamic and exciting business forward.

Technology Division

The technology division made an operating loss of £83k (2016: £353k) this includes the corporate costs of the group. Attendance at key industry events, supported by articles in trade media fuelled a unit sales growth for the year which although tempered initially in the UK post Brexit, quickly recovered. With our international marketing strategy also achieving increased interest from new and existing export market overall performance has been consistent with expectations. Previous sales success has also driven additional revenue growth this year with past clients returning for Servicing, System Upgrades and Accessories. Rejection again of our H2020 phase 2, grant re-application was a considerable disappointment. However; following consultation with our advisers we shall continue re-submitting what we hope will be regarded as improved applications, building on feedback we receive from the assessors.

Concerted R & D effort this year has led to significant reduction in our unit build costings and the development of a new high end product variant based on our popular e-Safe design. Launched as e-SafePRO at an International utilities event in May, this new system is expected to have a significant impact on future sales growth going forward.

“significant turnaround in profitability”

Adien

Adien turned itself around during the year increasing turnover by 10% to £1,364,000 and delivering a profit before tax to the Group of £16,000 (2016: £163,000 loss). With a degree of certainty in the political world this improvement is expected to continue.

The first quarter of the current year has seen good contract wins in Northern Ireland, Scotland and the North of England. The activity levels in Scotland are improving at a significant rate and the medium to long term potential in Northern Ireland is increasing monthly as most major infrastructure projects now have funding in place. Demand for Adien's services in England is relatively steady, however there are now signs of increased activity within certain sectors namely; Transport: airports, highways and rail. In addition, the power generation and distribution and water treatment sectors are growing in demand.

Currently Adien's order book and the value of quotes for contracts still to be awarded indicates that business will continue to develop at a sustainable level.

SUMO

On 13 October 2017, the Company sold its 28.4 per cent. joint venture interest in the ordinary share capital of SUMO Limited to me for a consideration of £197,499, being the original cost of the investment, subject to shareholder approval. The consideration will be satisfied in cash. I have agreed to pay the consideration immediately and therefore the payment of £197,499 will be treated as a loan on identical terms to the existing loans due to me if approved by shareholders, the result will be that the Group will record a book profit on sale of £143,000.

I have agreed that in the event that SUMO effects a fundraising at a pre-money valuation in excess of £700,000 (equivalent to £2 per SUMO share, the price I paid) before 30 June 2018 or SUMO effects a sale of the company or an IPO at a price greater than £2 per SUMO share before 13 October 2020, then further consideration of 50 per cent. of the value of

such excess will be payable in cash to the Company by me.

The independent directors, Randal MacDonnell and Soumitra Padmanathan, having consulted with the Company's nominated adviser, Allenby Capital Limited, consider that the terms of the sale of the investment in SUMO and the loan provided by me are fair and reasonable insofar as the shareholders of PipeHawk are concerned.

Financial position

The broadly breakeven result means that the Group continues to be in a net liability position and reliant on my continuing financial support.

My letter of support dated 14 November 2016 was renewed on 30 October 2017 for a further year. Loans, other than those covered by the CULS agreement, are unsecured and accrue interest at an annual rate of Bank of England base rate plus 2.15%.

In addition to the loans I have provided to the Company in previous years, my fellow directors and I have deferred a certain proportion of our fees and the interest due to us until the Company is in a suitably strong position to make the full payments. Further fees and interest, amounting to £71,000 were deferred in the year ended 30 June 2017. At 30 June 2017, these deferred fees and interest amounted to approximately £1.6 million in total, all of which have been recognised as a liability in the Company's accounts.

Strategy & Outlook

The PipeHawk Group remains committed to creating sustainable earnings-based growth and focusing on the expansion of its business with forward-looking products and services. PipeHawk acts responsibly towards its shareholders, business partners, employees, society and the environment – in each of its business areas.

PipeHawk is committed to technologies and products that unite the goals of customer value and sustainable development. The year under review has been a massive turnaround year, following the substantial losses in the previous two years, all divisions of the Group are currently performing well and the Directors remain optimistic in their outlook for the Group.

Gordon Watt

Chairman

30 October 2017

Financial results

Turnover for the year ended 30 June 2017 was £5.7 million (2016: £4.8 million). The Group incurred a profit after taxation for the year of £179,000 (2016: loss £753,000). The profit per share was 0.54p (2016: loss per share 2.28p). A detailed review of business as well as future developments is included in the Chairman's statement.

Key performance indicators

The Group's key financial performance indicators are turnover and profit before tax and an analysis using these KPIs is included in the Chairman's statement. The primary non-financial KPI is the strength of the order book and this is also discussed in the Chairman's statement.

Principal risks and uncertainties

The principal risks and uncertainties facing the business are ;

- the acceptance by end customers of its products – the Group mitigates this risk by sharing and getting sign off on the proposed solution and by ensuring open lines of communication such that any challenges are identified early and are resolved with the customer prior to delivery;
- competitive pressure on pricing and delivery timescales – this risk is mitigated by the high level of technological quality offered by the Group's solutions and its strong relationships with its key customers
- technological changes – mitigated by continued investment in research and development;
- The Group monitors cash flow as part of its day to day control procedures. The Board considers cash flow projections at its meetings and ensures that appropriate facilities are available to be drawn down upon as necessary
- A key risk for the business is the continuing availability of the financial support arrangements provided by the Executive Chairman described in the Report of the Directors and in note 1, which have been received for a further 12 months

The Group's financial risks and policies to minimise these are set out in note 18.

Current trading

Current trading is satisfactory and in line with the directors' expectations. The Strategic Report was approved by the Board on 30 October 2017 and signed on its behalf by:

Soumitra P Padmanathan

Finance Director

The directors present the annual report on the affairs of the Group together with the financial statements for the year ended 30 June 2017.

Principal activities and review of business

The principal activities of the Group during the year were the development, assembly and sale of test system solutions and ground probing radar (GPR) equipment; the provision of GPR based services and the undertaking of complementary Research and Development assignments.

Future developments

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chairman's statement and the summary of significant accounting policies – "critical judgements in applying accounting policies and key sources of estimation uncertainty".

Results and dividends

The results for the Group for the year are set out in the consolidated statement of comprehensive income on page 13. The directors do not recommend the payment of a dividend for the year (2016: £nil).

Directors

The directors who served during the year are set out below:

Gordon G Watt (Executive Chairman)
 Soumitra P Padmanathan (Finance Director)
 Robert Randal MacDonnell (Non-Executive)
 Robert G Tallentire (Non-Executive) – resigned 6 June 17

The directors' beneficial interests in the share capital of the company were as follows:

	30 October 2017		30 June 2017		30 June 2016	
	Ordinary Shares of 1p	% of issued share capital	Ordinary Shares of 1p	% of issued share capital	Ordinary Shares of 1p	% of issued share capital
G G Watt	5,721,500	17.3%	5,721,500	17.3%	5,721,500	17.3%
R MacDonnell	931,436	3.1%	931,436	3.1%	931,436	3.1%
R G Tallentire	-	-	-	-	-	-
S P Padmanathan	-	-	-	-	-	-

The directors are also interested in unissued Ordinary Shares granted to them by the Company under share options held by them pursuant to individual option schemes as set out in note 6.

Substantial share interests

Other than directors, the Company has been notified of the following persons being interested in more than 3% of the issued share capital of the company at the date of this report.

	Ordinary Shares of 1p	% of issued share capital
S Hamilton	4,583,334	13.9%
P Lobbenberg	3,100,000	9.4%
R J Chignell	2,204,200	6.7%
J T Twigg	1,054,830	3.2%
N G Wood	1,054,830	3.2%

Research and development

The Group continues to undertake research and development activities at its sites in Worcester and Aldershot. This will enable the Group to expand its activity in technology and innovation that will help us greatly in developing new products that will begin directly generating revenue in the future. The Group has undertaken research and development activities in the areas of ground probing radar and test & measurement related equipment.

Auditor and disclosure of information to auditor

Each of the persons who are directors at the time when this report is approved has confirmed that:

- (a) so far as each director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- (b) each director has taken all the steps that ought to have been taken as a director in order to be aware of any information needed by the company's auditor in connection with preparing their report and to establish that the company's auditor is aware of that information.

Auditor

The reappointment of Crowe Clark Whitehill LLP will be proposed at the forthcoming Annual General Meeting, in accordance with section 489 of the Companies Act 2006.

Financial instruments

Note 18 to the financial statements describe the policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and its exposure to credit risk and liquidity risk.

Going concern

As described in the Chairman's report, the current economic environment is improving for the Group's trading subsidiaries in their respective markets as evidences by healthy order books however the directors consider that the outlook presents challenges in terms of sales volumes and in terms of bringing R&D developments to commercialisation. The directors have instituted measures to preserve cash and secure additional finance but these circumstances create uncertainties over future trading results and cashflows.

The directors have reviewed the Group's funding requirements for the next twelve months which show positive anticipated cash flow generation, prior to any repayment of loans from the Executive Chairman. The directors therefore have a reasonable expectation that the entity has adequate resources to continue in its operational exercises for the foreseeable future. The directors have furthermore obtained a renewed pledge from GG Watt to provide ongoing financial support for a period of at least twelve months from the approval date of the group statement of financial position. It is on this basis that the directors consider it appropriate to adopt the going concern basis of preparation within these financial statements. A material uncertainty exists regarding the ability of the Group to remain a going concern without the continuing financial support of the Executive Chairman.

Approval

The report of the directors was approved by the Board on 30 October 2017 and signed on its behalf by:

Soumitra P Padmanathan

Director

The Company is not subject to the Listing Rules of the Financial Conduct Authority which require listed companies to disclose how they have applied the principles set out in the UK Corporate Governance Code and whether they have complied with its provisions throughout the period. The Company considers these principles to be best practice, subject to their appropriateness given the size of the Company and the composition of the Board. The following report summarises the current corporate governance processes that are in place.

Directors

The Board currently comprises the executive chairman, one executive director and one non-executive director. During the year to 30 June 2017 one non-executive Directors resigned.

Executive directors' normal retirement age is 65 and non-executive directors' normal retirement age is 70. Both are subject to periodic reappointment by shareholders. The requirements of the Company's articles result in each director being reappointed every three years.

The full Board meets formally six times each year. There is a formal schedule of matters reserved for the Board's decision. All directors have access to the advice and services of the company secretary, who is also responsible for ensuring that Board procedures are followed. There is also a procedure in place for any director to take independent professional advice, if necessary, at the company's expense.

Internal controls

The directors have overall responsibility for ensuring that the Group maintains a system of internal control, and for reviewing its effectiveness, to provide them with reasonable assurance that the assets of the Group are safeguarded and that the shareholders' investments are protected. The system includes internal controls covering financial, operational and compliance areas, and risk management. There are limitations in any system of internal control, which are designed to manage rather than eliminate risk and can provide reasonable but not absolute assurance against material misstatement or loss.

The Board has undertaken an assessment of the major risk areas for the business and methods used to monitor and control them. In addition to financial risk, this covered operational, commercial, marketing and research and development risks. This risk review has become an ongoing process of identifying, evaluating and managing the significant risks faced by the Group, with regular review by the Board.

The additional key procedures designed to provide an effective system of internal control are that:

- There is an organisational structure with clearly defined lines of responsibility and delegation of authority.
- Annual budgets are prepared and updated as necessary.
- Management accounts are prepared on a quarterly basis and compared to budgets and forecasts to identify any significant variances.
- The Group appoints staff of the required calibre to fulfil their allotted responsibilities.

The Board has considered it inappropriate to establish an internal audit function. However, this decision will be reviewed as the operations of the Group develop.

Identification of business risk

Regular assessments of ongoing risks facing the business are undertaken as part of the regular Group management meetings in the key areas such as management of working capital, compliance, legal and operational issues. This risk management framework is applied to major initiatives such as acquisitions as well as operational risks within the business including operational health and safety risks.

Remuneration

Basic salaries are set having regard to each director's responsibilities and pay levels for comparable positions. In framing its remuneration policy the committee aims to attract and retain directors to run the company successfully without making excessive payments.

Details of individual directors' share options are included in the notes to the financial statements and details of their remuneration including long term incentive schemes are included in note 6 to the audited financial statements. The notice period in all the directors' service contracts is one year.

Shareholder relationships

The Board attaches a high priority to communications with shareholders. Presentations are made to shareholders, institutions and analysts once a year to coincide with the announcement of the final results. Additional dialogue with institutional shareholders is entered into as necessary.

The annual general meeting is to be held on 14 December 2017. The resolutions to be proposed at the annual general meeting, together with explanatory notes, appear in the separate Notice of Annual General Meeting on page 41.

Other information about the Company is available on the Company's website.

Gordon Watt BA, FCA, FRSA

Chairman (64)

Gordon is a chartered accountant having been a partner at RSM Robson Rhodes and then Finance Director/Deputy Chief Executive of British Bus Plc until it was sold to Arriva Plc. He is non-executive chairman of a number of private companies, he became a non-executive director of the Group in 1998, became finance director in December 2001 and Chairman in January 2003.

Soumitra P Padmanathan BSc, FCA, CTA

Finance Director (53)

Soumitra (Mithi) was appointed as Group Finance Director on 11 April 2016. Having qualified with RSM Robson Rhodes, Mithi has gained extensive experience in several Global multi-national businesses.

R Randal MacDonnell

Non-executive Director (77)

Randal joined the Group in February 2006. He was previously a director of Kleinwort Benson Securities, Laing & Cruickshank Securities and Chase Manhattan Securities Limited. Prior to that he was a partner in stockbrokers Laurie Milbank & Co.

Statement of Directors' Responsibilities for the Annual Report

The directors are responsible for preparing the Strategic Report, the Directors' Report and Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and applicable law.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and the group and of the profit or loss of the group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company and group's transactions and disclose with reasonable accuracy at any time the financial position of the company and group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

They are further responsible for ensuring that the Strategic Report and the Report of the Directors and other information included in the Annual Report and Financial Statements is prepared in accordance with applicable law in the United Kingdom.

The maintenance and integrity of the PipeHawk plc website is the responsibility of the directors; the work carried out by the auditors does not involve the consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred in the accounts since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of the accounts and the other information included in annual reports may differ from legislation in other jurisdictions.

Opinion

We have audited the financial statements of Pipehawk Plc (the "Parent Company") and its subsidiaries (the "Group") for the year ended 30 June 2017, which comprise:

- the Group statement of comprehensive income for the year ended 30 June 2017;
- the Group and Parent Company statements of financial position as at 30 June 2017;
- the Group and Parent Company statements of cash flows and statements of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 30 June 2017 and of the Group's profit for the period then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to note 1 in the financial statements, which explains that the group is reliant on the continued support of the Executive Chairman. As stated in note 1, these events or conditions, along with the other matters as set forth in note 1, indicate that a material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Overview of our audit approach

Materiality

In planning and performing our audit we applied the concept of materiality. An item is considered material if it could reasonably be expected to change the economic decisions of a user of the financial statements. We used the concept of materiality to both focus our testing and to evaluate the impact of misstatements identified.

Based on our professional judgement, we determined overall materiality for the Group financial statements as a whole to be £46,000, based on a percentage of Group's revenues for the period.

We use a different level of materiality ('performance materiality') to determine the extent of our testing for the audit of the financial statements. Performance materiality is set based on the audit materiality as adjusted for the judgements made as to the entity risk and our evaluation of the specific risk of each audit area having regard to the internal control environment.

Where considered appropriate performance materiality may be reduced to a lower level, such as, for related party transactions and directors' remuneration.

We agreed with the Audit Committee to report to it all identified errors in excess of £2,300. Errors below that threshold would also be reported to it if, in our opinion as auditor, disclosure was required on qualitative grounds.

Overview of the scope of our audit

The Group and its subsidiaries are accounted for from one central operating location, the group's registered office. Our audit was conducted from the main operating location and all group companies were within the scope of our audit testing.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

This is not a complete list of all risks identified by our audit.

Key audit matter

Valuation of goodwill

The financial statements of Pipehawk Plc include goodwill of £1,061k arising on the acquisition of Adien Limited (£212k) and QM Systems Limited (£849k). Under IAS 38, goodwill is subject to an annual impairment review and the recoverable amount of goodwill must be measured in accordance with IAS 36. The recoverable value of goodwill was calculated by management having regard to a discounted cash flow model, this required management to estimate the expected quantum and growth of cash flows and select a suitable discount rate in order to calculate the present value.

Revenue recognition

For contracts entered into, the company recognises revenue over the period of the contract and the revenue recognised relating to these contracts are material.

The group uses the percentage of completion method to determine the appropriate amount of revenue to recognise in a given period. This is measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, except where this would not be representative of the stage of completion. A number of judgements are made by management in making its assessment of estimated costs and profitability.

Our audit procedures in relation to these matters were designed in the context of our audit opinion as a whole. They were not designed to enable us to express an opinion on these matters individually and we express no such opinion.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion based on the work undertaken in the course of our audit

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the directors' report and strategic report have been prepared in accordance with applicable legal requirements.

How the scope of our audit addressed the key audit matter

We evaluated the appropriateness of managements' identification of CGUs. We benchmarked and challenged key assumptions in management's valuation models used to determine recoverable amount and discount rates, performed testing of the mathematical accuracy of the cash flow models and challenged and agreeing key assumptions to available data.

We evaluated the appropriateness of managements' identification of CGUs. We benchmarked and challenged key assumptions in management's valuation models used to determine recoverable amount and discount rates, performed testing of the mathematical accuracy of the cash flow models and challenged and agreeing key assumptions to available data.

Matters on which we are required to report by exception

In light of the knowledge and understanding of the group and the parent company and their environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of the directors for the financial statements

As explained more fully in the directors' responsibilities statement set out on page 9, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Stephen Bullock

Senior Statutory Auditor
for and on behalf of
Crowe Clark Whitehill LLP
Chartered Accountants
Statutory Auditor

St Bride's House
10 Salisbury Square
London
EC4Y 8EH
United Kingdom

30 October 2017

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2017

	Note	30 June 2017 £'000	30 June 2016 £'000
Revenue	2	5,702	4,813
Staff costs	5	(2,876)	(2,866)
Operating costs		(2,842)	(2,805)
Operating loss		(16)	(858)
Share of post-tax profits of equity accounted joint venture	11	1	6
Loss before interest and taxation		(15)	(852)
Finance costs	3	(178)	(165)
Loss before taxation		(193)	(1,017)
Taxation	7	372	264
Profit/(Loss) for the year attributable to equity holders of the parent		179	(753)
Other comprehensive income		-	-
Total comprehensive profit/(loss) for the year attributable to equity holders of the parent		179	(753)
Profit/(loss) per share (pence) – basic	8	0.54	(2.28)
Profit/(loss) per share (pence) – diluted	8	0.47	(2.28)

The notes on pages 19 to 40 form an integral part of these financial statements.

Consolidated Statement of Financial Position

at 30 June 2017

Assets	Note	30 June 2017 £'000	30 June 2016 £'000
Non-current assets			
Property, plant and equipment	9	145	227
Goodwill	10	1,061	1,061
Investment in joint venture	11	54	53
		<u>1,260</u>	<u>1,341</u>
Current assets			
Inventories	13	156	105
Current tax assets		253	181
Trade and other receivables	14	745	1,224
Cash and cash equivalents		72	24
		<u>1,226</u>	<u>1,534</u>
Total assets		<u>2,486</u>	<u>2,875</u>
Equity and liabilities			
Equity			
Share capital	19	330	330
Share premium		5,151	5,151
Retained earnings		(9,057)	(9,236)
		<u>(3,576)</u>	<u>(3,755)</u>
Non-current liabilities			
Borrowings	15	2,266	2,301
Trade and other payables	16	-	-
		<u>2,266</u>	<u>2,301</u>
Current liabilities			
Trade and other payables	16	1,609	2,027
Borrowings	17	2,187	2,302
		<u>3,796</u>	<u>4,329</u>
Total equity and liabilities		<u>2,486</u>	<u>2,875</u>

The notes on pages 19 to 40 form an integral part of these financial statements.

The financial statements were approved by the board and authorised for issue on 30 October 2017 and signed on its behalf by:

Gordon G Watt
Director

Company No: 3995041

Parent Company Statement of Financial Position

at 30 June 2017

Assets	Note	30 June 2017 £'000	30 June 2016 £'000
Non-current assets			
Investment in subsidiaries	12	1,197	1,197
Investment in joint venture	12	198	198
		1,395	1,395
Current assets			
Inventories	13	148	97
Current tax assets		100	82
Trade and other receivables	14	363	316
Cash and cash equivalents		-	-
		611	495
Total assets		2,006	1,890
Equity and liabilities			
Equity			
Share capital	19	330	330
Share premium		5,151	5,151
Retained earnings		(9,223)	(9,145)
		(3,742)	(3,664)
Non-current liabilities			
Borrowings	15	2,225	2,225
Trade and other payables	16	1,583	1,261
		3,808	3,486
Current liabilities			
Borrowings	17	1,725	1,868
Trade and other payables	16	215	200
		1,940	2,068
Total equity and liabilities		2,006	1,890

Equity includes loss for the year of the parent company of £78,000 (2016: £372,000).

The notes on pages 19 to 40 form an integral part of these financial statements.

The financial statements were approved by the board and authorised for issue on 30 October 2017 and signed on its behalf by:

Gordon G Watt
Director

Company No: 3995041

Consolidated Statement of Cash Flow

For the year ended 30 June 2017

	Note	30 June 2017 £'000	30 June 2016 £'000
Cash flows from operating activities			
Loss from operations		(16)	(858)
Adjustments for:			
Profit on disposal of assets		-	(1)
Depreciation		100	112
		<u>84</u>	<u>(747)</u>
Increase in inventories		(51)	(19)
Decrease in receivables		478	53
(Decrease)/Increase in liabilities		(577)	328
		<u>(66)</u>	<u>(385)</u>
Cash used in operations		(66)	(385)
Interest paid		(2)	(18)
Corporation tax received		299	212
		<u>231</u>	<u>(191)</u>
Net cash generated from/(used in) operating activities			
Cash flows from investing activities			
Proceeds from sale of assets		-	2
Purchase of plant and equipment		(18)	(105)
		<u>213</u>	<u>(103)</u>
Cash flows from financing activities			
Proceeds from borrowings		97	361
Repayment of loan		(210)	-
Repayment of finance leases		(52)	(86)
		<u>(165)</u>	<u>275</u>
Net cash (used in)/generated from financing activities		(165)	275
Net increase/(decrease) in cash and cash equivalents			
		<u>48</u>	<u>(19)</u>
Cash and cash equivalents at beginning of year		24	43
Cash and cash equivalents at end of year			
		<u>72</u>	<u>24</u>

The notes on pages 19 to 40 form an integral part of these financial statements.

Parent Company Statement of Cash Flow

For the year ended 30 June 2017

	30 June 2017 £'000	30 June 2016 £'000
Cash flows from operating activities		
Loss from operations	(83)	(353)
Increase in inventories	(51)	(25)
(Increase)/decrease in receivables	(47)	364
Decrease/(increase) in liabilities	62	(80)
Cash generated by operations	(119)	(94)
Interest paid	-	(2)
Corporation tax received	119	87
Net cash generated by operating activities	-	(9)
Cash flows from investing activities		
Proceeds from borrowing	25	-
Repayment of loan	(25)	-
Net cash used in financing activities	-	-
Net increase in cash and cash equivalents	-	(9)
Cash and cash equivalents at beginning of year	-	9
Cash and cash equivalents at end of year	-	-

The notes on pages 19 to 40 form an integral part of these financial statements.

Statement of Changes in Equity

For the year ended 30 June 2017

Consolidated	Share capital £'000	Share premium account £'000	Retained earnings £'000	Total £'000
As at 1 July 2015	330	5,151	(8,483)	(3,002)
Loss for the year	-	-	(753)	(753)
Other comprehensive income	-	-	-	-
Total comprehensive loss	-	-	(753)	(753)
As at 30 June 2016	330	5,151	(9,236)	(3,755)
Profit for the year	-	-	179	179
Other comprehensive income	-	-	-	-
Total comprehensive income	-	-	179	179
As at 30 June 2017	330	5,151	(9,057)	(3,576)
 Parent				
	Share capital £'000	Share premium account £'000	Retained earnings £'000	Total £'000
As at 1 July 2015	330	5,151	(8,773)	(3,292)
Loss for the year	-	-	(372)	(372)
Other comprehensive income	-	-	-	-
Total comprehensive loss	-	-	(372)	(372)
As at 30 June 2016	330	5,151	(9,145)	(3,664)
Loss for the year	-	-	(78)	(78)
Other comprehensive income	-	-	-	-
Total comprehensive loss	-	-	(78)	(78)
As at 30 June 2017	330	5,151	(9,223)	(3,742)

The share premium account reserve arises on the issuing of shares. Where shares are issued at a value that exceeds their nominal value, a sum equal to the difference between the issue value and the nominal value is transferred to the share premium account reserve.

The notes on page 19 to 40 form an integral part of these financial statements.

1. Summary of Significant Accounting Policies

General information

PipeHawk plc (the Company) is a limited company incorporated in the United Kingdom under the Companies Act 2006. The addresses of its registered office and principal place of business are disclosed in the company information at page 1. The principal activities of the Company and its subsidiaries (the Group) are described on page 5.

The financial statements are presented in pounds sterling, the functional currency of all companies in the Group. In accordance with section 408 of the Companies Act 2006 a separate statement of comprehensive income for the Company has not been presented. For the year to 30 June 2017 the Company recorded a net loss after taxation of £78,000 (2016: £372,000).

Basis of preparation

The financial statements have been prepared in accordance with international financial reporting standards as adopted by the EU and under the historical cost convention. The principal accounting policies are set out below.

A number of new standards and amendments to standards and interpretations have been issued but are not yet effective and in some cases have not yet been adopted by the EU.

The directors do not expect that the adoption of these standards will have a material impact on the financial statements of the Group in future periods, except that IFRS 9 will impact both the measurement and disclosures of financial instruments and IFRS 15 may have an impact on revenue recognition and related disclosures. At this point it is not practicable for the directors to provide a reasonable estimate of the effect of IFRS 9 and IFRS 15 as their detailed review of these standards is still ongoing.

In addition the directors are in the process of considering the potential changes that may occur to the financial statements under IFRS 16 "Leases". This is expected to apply to periods commencing on or after 1 January 2019 and the assessment will be made over the next year and reported in future financial information.

Basis of preparation – Going concern

The directors have reviewed the Group's funding requirements for the next twelve months which show positive anticipated cash flow generation, prior to any repayment of loans from the Executive Chairman. The directors therefore have a reasonable expectation that the entity has adequate resources to continue in its operational exercises for the foreseeable future. The directors have furthermore obtained a renewed pledge from GG Watt to provide ongoing financial support for a period of at least twelve months from the approval date of the group statement of financial position. It is on this basis that the directors consider it appropriate to adopt the going concern basis of preparation within these financial statements. A material uncertainty exists regarding the ability of the Group to remain a going concern without the continuing financial support of the Executive Chairman.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group. All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the purchase method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 *Business Combinations (revised)* are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, which are recognised and measured at fair value less costs to sell.

1. Summary of Significant Accounting Policies (continued)

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

Goodwill

Goodwill arising on the acquisition of a subsidiary or a jointly controlled entity represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary or jointly controlled entity recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Investments in joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control that is when the strategic financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control.

The results and assets and liabilities of joint venture are incorporated in these financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. Under the equity method, investments in joint ventures are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the joint venture, less any impairment in the value of individual investments. Losses of a joint venture in excess of the Group's interest in that joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint venture) are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the joint venture.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the joint venture recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Where a group entity transacts with a joint venture of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant joint venture.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

1. Summary of Significant Accounting Policies (continued)

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

For PipeHawk products this is generally at the point of delivery.

Rendering of services

In relation to the design and manufacture of complete software and hardware test solutions and the provision of specialist surveying, revenue is recognised through a review of the man-hours completed on the project at the year-end compared to the total man-hours required to complete the projects. Provision is made for all foreseeable losses if a contract is assessed as unprofitable.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is charged so as to write off the cost of assets over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis. Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease. The principal annual rates used to depreciate property, plant and equipment are:

Equipment, fixtures and fittings	25%
Motor vehicles	25%

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within the Statement of Comprehensive Income.

Inventories and work in progress

Inventories are stated at the lower of cost and net realisable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventories by the method most appropriate to the particular class of inventory, with the majority being valued on a first-in-first-out basis. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Work in progress is valued at cost, which includes outlays incurred on behalf of clients and an appropriate proportion of directly attributable costs on incomplete assignments. Provision is made for irrecoverable costs where appropriate.

Financial assets

Financial assets are recognised and derecognised on trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

1. Summary of Significant Accounting Policies (continued)

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period. Income is recognised on an effective interest basis.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each statement of financial position date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset.

Financial liabilities and equity instruments issued by the Group

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

1. Summary of Significant Accounting Policies (continued)

Intangible assets

Intangible assets acquired separately

Intangible assets acquired separately are reported at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Internally-generated intangible assets – research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred. An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

Finance leases

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss. Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating leases

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

1. Summary of Significant Accounting Policies (continued)

Pension scheme contributions

Pension contributions are charged to the statement of comprehensive income in the period in which they fall due. All pension costs are in relation to defined contribution schemes.

Share based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 19.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest. At each statement of financial position date, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss over the remaining vesting period, with a corresponding adjustment to reserves.

Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at 30 June. Transactions in foreign currencies are recorded at the rates ruling at the date of the transactions.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the year end date.

Deferred tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the statement of financial position liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the year end date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

1. Summary of Significant Accounting Policies (continued)

Current and deferred tax for the year

Current and deferred tax are recognised as an expense or income in the statement of comprehensive income, except when they relate to items credited or debited directly to equity, in which case the tax is also recognised directly in equity, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or in determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination.

Impairment of property, plant and equipment and intangible assets

At each year end date, the Group reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the statement of comprehensive income, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase. Any impairment made to the goodwill cannot be subsequently reversed.

Critical judgements in applying accounting policies and key sources of estimation uncertainty

The following are the critical judgements and key sources of estimation uncertainty that the directors have made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in these financial statements.

Impairment of goodwill and investment in subsidiaries and intercompany receivables

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. A similar exercise is required in respect of investment and long term loans in subsidiary.

The value in use calculation requires the directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value, see note 10 for further details.

The carrying amount of goodwill at the year-end date was £1,061,000 (2016: £1,061,000). The investment in subsidiaries at the year end was £1,197,000 (2016: £1,197,000).

Notes to the Financial Statements

For the year ended 30 June 2017

2. Segmental analysis

	2017 £'000	2016 £'000
Turnover by geographical market		
United Kingdom	5,671	4,745
Europe	28	68
Other	3	-
	5,702	4,813
	5,702	4,813

The group operates out of one geographical location being the UK. Accordingly the primary segmental disclosure is based on activity. Per IFRS 8 operating segments are based on internal reports about components of the group, which are regularly reviewed and used by Chief Operating Decision Maker ("CODM") for strategic decision making and resource allocation, in order to allocate resources to the segment and to assess its performance. The Group's reportable operating segments are as follows:

- Adien - Utility detection and mapping services
- Technology Division - Development, assembly and sale of GPR equipment
- QM Systems - Test system solutions

The CODM monitors the operating results of each segment for the purpose of performance assessments and making decisions on resource allocation. Performance is based on external and internal revenue generations and profit before tax, which the CODM believes are the most relevant in evaluating the results relative to other entities in the industry. Segment assets and liabilities are presented inclusive of inter segment balances, as inter-segment pricing.

In utility detection and mapping services one customer accounted for 10% of revenue in 2017 and 11% in 2016. In development, assembly and sale of GPR equipment one customer accounted for 23% of revenue in 2017 and 10% in 2016. In automation and test system solutions one customer accounted for 23% of revenue and 15.5% in 2016.

Information regarding each of the operations of each reportable segments is included below, all non-current assets owned by the group are held in the UK.

	Utility detection and mapping services £'000	Development, assembly and sale of GPR equipment £'000	Automation and test system solutions £'000	Total £'000
Year ended 30 June 2017				
Total segmental revenue	1,364	288	4,050	5,702
Segmental results	25	(83)	42	(16)
Finance costs	(9)	(132)	(37)	(178)
Share of operating profit in Joint Venture				1
Loss before taxation	16	(215)	5	(193)
Segment assets	498	1,381	607	2,486
Segment liabilities	418	5,404	240	6,062
Non-current asset additions	12	-	6	18
Depreciation and amortisation	66	-	34	100
	1,364	288	4,050	5,702
	1,364	288	4,050	5,702

2. Segmental analysis (continued)

	Utility detection and mapping services £'000	Development, assembly and sale of GPR equipment £'000	Automation and test system solutions £'000	Total £'000
Year ended 30 June 2016				
Total segmental revenue	1,241	151	3,421	4,813
Segmental result	(157)	(353)	(348)	(858)
Finance costs	(7)	(137)	(21)	(165)
Share of operating loss in joint venture				6
Loss before taxation	(163)	(485)	(369)	(1,017)
Segment assets	521	1,334	1,019	2,874
Segment liabilities	510	4,293	1,827	6,630
Non-current asset additions	95	-	10	105
Depreciation and amortisation	72	-	40	112

The majority of the Group's revenue is earned via the rendering of services.

3. Finance costs

	2017 £'000	2016 £'000
Interest payable	178	165
	178	165
Interest payable comprises interest on:		
Finance leases	9	23
Directors' loans	132	136
Other	37	6
	178	165

Notes to the Financial Statements

For the year ended 30 June 2017

4. Operating loss for the year

This is arrived at after charging for the Group:

	2017	2016
	£'000	£'000
Research and development costs not capitalised	1,232	978
Depreciation of wholly owned property, plant and equipment	62	67
Depreciation of property, plant and equipment held under finance leases	38	45
Auditor's remuneration		
- Fees payable to the company's auditor for the audit of the group's financial statements	22	24
- Fees payable to the company's auditor and its subsidiaries for the provision of tax services	4	4
Operating lease rentals:		
- other including land and buildings	125	143
	<u>125</u>	<u>143</u>

The company audit fee is £8,500 (2016: £8,500).

5. Staff costs

	2017	2016
	No.	No.
Average monthly number of employees, including directors:		
Production and research	62	63
Selling and research	10	11
Administration	7	7
	<u>79</u>	<u>81</u>

	2017	2016
	£'000	£'000
Staff costs, including directors:		
Wages and salaries	2,589	2,641
Social security costs	257	209
Other pension costs	30	16
	<u>2,876</u>	<u>2,866</u>

6. Directors' Remuneration

	Salary and fees £'000	Benefits in kind £'000	2017 Total £'000	2016 Total £'000
G G Watt	71	-	71	71
S P Padmanathan	24	1	25	4
R MacDonnell	2	-	2	2
Aggregate emoluments	<u>97</u>	<u>1</u>	<u>98</u>	<u>78</u>

Directors' pensions

The number of directors who are accruing retirement benefits under:
- defined contributions policies

	2017 No.	2016 No.
	<u>-</u>	<u>-</u>

The directors above represent key management personnel.

Directors' share options

	At start of year	No. of options		Exercise price	Date from which exercisable
		Granted during year	At end of year		
R MacDonnell	500,000	-	500,000	3.0p	6-Mar-15
S P Padmanathan		200,000	200,000	3.9p	15-Nov-19

The Company's share price at 30 June 2017 was 3.125p. The high and low during the period under review were 7.182p and 2.50p respectively.

In addition to the above, in consideration of loans made to the Company, G G Watt has warrants over 3,703,703 ordinary shares at an exercise price of 13.5p and a further 6,000,000 ordinary shares at an exercise price of 3.0p.

7. Taxation

	2017 £'000	2016 £'000
United Kingdom Corporation Tax		
Current taxation	(253)	(264)
Adjustments in respect of prior years	(119)	-
	<u>(372)</u>	<u>(264)</u>
Deferred taxation	-	-
Tax on loss	<u>(372)</u>	<u>(264)</u>
	2017 £'000	2016 £'000
Current tax reconciliation		
Taxable (loss) for the year	(193)	(1,023)
Theoretical tax at UK corporation tax rate 20% (2016: 22.75%)	(39)	(205)
Effects of:		
- R&D tax credit adjustments	(215)	(162)
- other expenditure that is not tax deductible	5	4
- adjustments in respect of prior years	(118)	36
- accelerated capital allowances	2	-
- losses carried forward	-	61
- short term timing differences	(7)	2
Total income tax expense	<u>(372)</u>	<u>(264)</u>

The Group has tax losses amounting to approximately £2,470,000 (2016: £2,492,000), available for carry forward to set off against future trading profits. No deferred tax assets have been recognised in these financial statements due to the uncertainty regarding future taxable profits.

Potential deferred tax assets not recognised are approximately £490,000 (2016: £490,000).

8. Profit per share

Group

Basic (pence per share) 2017 – 0.54; 2016 - 2.28 loss per share

This has been calculated on a profit of £179,000 (2016: £753,000 loss) and the number of shares used was 33,020,515 (2016: 33,020,515) being the weighted average number of shares in issue during the year.

Diluted (pence per share) 2017 – 0.47; 2016 – 2.28 loss per share

This has been calculated using earnings of £259,000 being the profit for the year plus the interest paid on the convertible loan note (net of 20% tax) of £80,000. (2016: £753,000 loss) and the number of shares used was 55,247,667 (2016: 33,020,515) being the weighted average number of shares outstanding during the year of 33,020,515 adjusted for shares deemed to be issued for no consideration relating to options of 2,227,152 and convertible instrument of 20,000,000. In the prior year the potential ordinary shares included in the weighted average number of shares are anti-dilutive and therefore diluted earnings per share is equal to basic earnings per share.

9. Property, plant and equipment

Group	Equipment, fixtures and fittings £'000	Leasehold improvements £'000	Motor vehicles £'000	Total £'000
Cost				
At 1 July 2016	1,389	223	346	1,958
Additions	18	-	-	18
Disposals	(10)	-	(25)	(35)
At 30 June 2017	1,397	223	321	1,941
Depreciation				
At 1 July 2016	1,240	182	309	1,731
Charged in year	63	23	14	100
Disposals	(10)	-	(25)	(35)
At 30 June 2017	1,293	205	298	1,796
Net book value				
At 30 June 2017	104	18	23	145
At 30 June 2016	149	41	37	227

The net book value of the property, plant and equipment includes £78,789 (2016: £116,965) in respect of assets held under finance lease agreements. These assets have been offered as security in respect of these finance lease agreements. Depreciation charged in the period on those assets amounted to £38,226 (2016: £45,514).

Company	Equipment, fixtures and fittings £'000	Leasehold improvements £'000	Total £'000
Cost			
At 1 July 2016 and 30 June 2017	196	45	241
Depreciation			
At 1 July 2016 and 30 June 2017	196	45	241
Net book value			
At 30 June 2017	-	-	-
At 30 June 2016	-	-	-

10. Goodwill

Group	Goodwill £'000	Total £'000
Cost:		
At 1 July 2016 and 30 June 2017	1,121	1,121
Impairment		
At 1 July 2016 and 30 June 2017	60	60
Net book value		
At 30 June 2017	1,061	1,061
At 30 June 2016	1,061	1,061

The goodwill carried in the statement of financial position of £1,061,000 arose on the acquisition of Adien Limited in 2002 (£212,000) and the acquisition of QM Systems Limited in 2006 (£849,000).

Adien Limited represents the segment utility detection and mapping services and QM Systems Limited represents the segment test system solutions.

QM Systems Limited is involved in projects surrounding:

- The creation of innovative automated assembly systems for the manufacturing, food and pharmaceutical sectors.
- The provision of inspection systems for the automotive, aerospace rail and pharmaceutical sectors.
- Automated test systems.

The group tests goodwill annually for impairment or more frequently if there are indicators that it might be impaired.

The recoverable amounts are determined from value in use calculations which use cash flow projections based on financial budgets approved by the directors covering a five year period. The key assumptions are those regarding the discount rates, growth rates and expected changes to sales and direct costs during the period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the business. This has been estimated at 10% per annum reflecting the prevailing pre-tax cost of capital in the company. The growth rates are based on forecasts and historic margins achieved in both Adien Limited and QM Systems Limited. For Adien these have been assessed as 7.5% growth for revenue in years 1 and 2 and 2.5% for years 3 to 5 and 2.5% for overhead growth. For QM Systems these have been assessed as 10% growth for revenue in year 1 and 2 and 5% for years 3 to 5 and 5% for overhead growth. No terminal growth rate was applied.

The directors believe that any reasonable possible change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of goodwill attributed to Adien Limited and QM Systems Limited to exceed the recoverable amount except as disclosed below:

If the QM Systems revenue growth was assumed to be 5% in year one and two an impairment charge of £41k would be recognised. The directors have regard to the sales pipeline and are satisfied that the growth rates used can be achieved.

If the QMS Systems margin was reduced by 10% an impairment charge of £100k would be recognised. On the basis of historical trading and the nature of the jobs in the pipeline the directors are confident of maintaining the margin.

11. Investment in Joint Venture

Group	Investment in shares £'000
Cost:	
At 1 July 2016 & 30 June 2017	198
Share of losses	
At 1 July 2016	145
Share of profit for the year	(1)
At 30 June 2017	144
Net investment	
At 30 June 2017	54
At 30 June 2016	53

The investment in joint venture relates to a 28.4% shareholding in the ordinary share capital of SUMO Limited. SUMO Limited is engaged in the development of a GPR franchise operation and has a year end of 31 December. For the purpose of preparing this consolidation, financial information has been prepared for the year ended 30 June 2017. SUMO Limited's principal place of business is Havant, Hampshire.

Summarised financial information in respect of the Group's joint venture is set out below:

	30 June 2017 £'000	30 June 2016 £'000
Cash	30	12
Current assets	1,947	3,072
Non-current assets	950	965
Total assets	2,927	4,049
Total liabilities (all current)	2,736	3,862
Net assets	192	187
Group's share of net assets of joint venture	54	53
	Year ended 30 June 2017 £'000	Year ended 30 June 2016 £'000
Total revenue	4,608	4,464
Interest expense	80	63
Depreciation/amortisation	168	117
Total profit for the period	24	22
Group's share of profit of joint venture	1	6

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For the year ended 30 June 2017

12. Non-current investments

Company	Investments in joint ventures £'000 (note 11)	Investments in subsidiaries £'000	Total £'000
Cost			
1 July 2016	198	1,197	1,395
At 30 June 2017	198	1,197	1,395
Impairment			
At 1 July 2016 and 30 June 2017	-	-	-
Net book value			
At 30 June 2017	198	1,197	1,395
At 30 June 2016	198	1,197	1,395

Parent and group

Subsidiary	interest in ordinary shares and voting rights	Country of incorporation	Principal activity
Adien Limited	100%	England & Wales	Specialist surveying
QM Systems Limited	100%	England & Wales	Test solutions
Tech Sales Services Limited	100%	England & Wales	Dormant
Minehawk Limited	100%	England & Wales	Dormant

An impairment assessment was performed in line with the assessment of goodwill, see note 10 for further details. On the basis of this assessment no impairment of the investment was required at 30 June 2017.

The registered office of the above named subsidiaries is Manor park industrial estate, Wyndham Street, Aldershot, Hampshire, GU12 4NZ.

13. Inventories

	Group		Company	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Raw materials	150	97	142	89
Finished goods	6	8	6	8
	<u>156</u>	<u>105</u>	<u>148</u>	<u>97</u>

The replacement cost of the above inventories would not be significantly different from the values stated.

The cost of inventories recognised as an expense during the year amounted to £1,591,000 (2016: £1,598,000).

14. Trade and other receivables

	Group		Company	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Current				
Trade receivables	666	1,126	16	7
Amounts owed by group undertakings	-	-	345	263
Other receivables	48	49	-	44
Prepayments and accrued income	31	49	2	2
	<u>745</u>	<u>1,224</u>	<u>363</u>	<u>316</u>

15. Non-current liabilities: Borrowings

	Group		Company	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Borrowings (note 17)	<u>2,266</u>	<u>2,301</u>	<u>2,225</u>	<u>2,225</u>

16. Trade and other payables

	Group		Company	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Current				
Bank Overdraft	12	-	12	-
Trade payables	544	841	120	120
Other taxation and social security	527	393	3	4
Payments received on account	164	432	-	-
Accruals	362	361	80	76
	<u>1,609</u>	<u>2,027</u>	<u>215</u>	<u>200</u>

	Group		Company	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Non-current				
Trade payables	-	-	-	-
Amounts owed to group undertakings	-	-	1,583	1,261
Accruals	-	-	-	-
	<u>-</u>	<u>-</u>	<u>1,583</u>	<u>1,261</u>

17. Borrowing Analysis

	Group		Company	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Due within one year				
Bank and other loans	306	404	-	-
Directors Loan	1,858	1,868	1,725	1,868
Obligations under finance lease agreements	23	30	-	-
	<u>2,187</u>	<u>2,302</u>	<u>1,725</u>	<u>1,868</u>
Due after more than one year				
Obligations under finance lease agreements	41	76	-	-
Directors' loans	2,225	2,225	2,225	2,225
	<u>2,266</u>	<u>2,301</u>	<u>2,225</u>	<u>2,225</u>
Repayable				
Due within 1 year	2,187	2,302	-	-
Over 1 year but less than 2 years	2,240	1,244	2,225	1,225
Over 2 years but less than 5 years	26	1,057	-	1,000
	<u>4,453</u>	<u>4,603</u>	<u>2,225</u>	<u>2,225</u>

Included with Directors' loans and borrowings due within one year are accrued fees and interest owing to GG Watt of £1,858,000 (2016: £1,868,000). The balance at 30 June 2016 was included in accruals in the prior period and has been restated as the presentation within borrowings is more appropriate. The accrued fees and interest is repayable on demand and no interest accrues on the balance.

Finance lease agreements with Close Motor Finance are at a rate of 4.5% over base rate. The future minimum lease payments under finance lease agreements at the yearend date was £63,775 (2016: £106,596).

A working capital loan of £222,000 was given by Mirrasand Partnership from a trust settled by Mr G Watt. The loan attracts interest at 10% per annum. £50,000 was repaid on 31 May 2017. The remainder is repayable in May 2018. The loan was guaranteed personally by Mr G Watt.

The director's loan due in more than one year is a loan of £1,225,000 from G G Watt. Directors' loans attract interest at 2.15% over Bank of England base rate. During the year to 30 June 2017 £nil (2016: £nil was repaid). The company has the right to defer repayment for a period of 366 days.

Included in bank and other loans is an invoice discounting facility of £97,000 (2016 £160,000).

On 13th August 2010 the Company issued £1 million of Convertible Unsecured Loan Stock 2014 ("CULS") to G G Watt, the Chairman of the Company. The CULS have been issued to replace loans made by G G Watt to the Company amounting to £1 million and has been recognised in non-current liabilities of £2,225,000. The CULS were renewed on 13th November 2014.

The principal terms of the CULS are as follows:

- The CULS may be converted at the option of Gordon Watt at a price of 5p per share at any time prior to 13th November 2018;
- Interest is payable at a rate of 10 per cent per annum on the principal amount outstanding until converted, prepaid or repaid, calculated and compounded on each anniversary of the issue of the CULS. On conversion of any CULS, any unpaid interest shall be paid within 20 days of such conversion;
- The CULS are repayable, together with accrued interest on 13th November 2018 ("the Repayment Date").

On the basis of materiality no equity element of the convertible loan stock has been recognised in these financial statements.

18. Financial Instruments and derivatives

The Group uses financial instruments, which comprise cash and various items, such as trade receivables and trade payables that arise from its operations. The main purpose of these financial instruments is to finance the Group's operations.

The main risks arising from the Group's financial instruments are credit risk, liquidity risk and interest rate risk. Several high level procedures are already in place to enable these risks to be controlled. These include profit forecasts by business segment, quarterly management accounts and comparison against forecast. The board reviews and agrees policies for managing this risk on a regular basis.

Credit risk

The credit risk exposure is the carrying amount of the financial assets as shown in note 15. Of the amounts owed to the Group at 30 June 2017, the top 3 customers comprised 33.5% (2016: 30.7%) of total trade receivables.

The Group has adopted a policy of only dealing with creditworthy counterparties and the Group uses its own trading records to rate its major customers. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. The directors believe that the Group does not have any significant credit risk exposure to any single counterparty. At year end, the Group did not have any customer with a concentration of credit in excess of 6% of gross assets.

An analysis of trade and other receivables:

2017	Carrying amount	Neither impaired nor past due	Past due but not impaired		
			61-90 days	91-120 days	More than 121 days
Trade and other receivables	745	634	30	17	64
	<u>745</u>	<u>634</u>	<u>30</u>	<u>17</u>	<u>64</u>
2016	Carrying amount	Neither impaired nor past due	Past due but not impaired		
			61-90 days	91-120 days	More than 121 days
Trade and other receivables	1,224	854	199	92	78
	<u>1,224</u>	<u>854</u>	<u>199</u>	<u>92</u>	<u>78</u>

The group allows an average receivables payment period of 60 days after invoice date. It is the group's policy to assess receivables for recoverability on an individual basis and to make provision where it is considered necessary. No debtors' balances have been renegotiated during the year or in the prior year. As at 30 June 2017, trade receivables of £nil (2016: £nil) were impaired and provided for.

Liquidity risk

As stated in note 1 the Executive Chairman, G G Watt, has pledged to provide ongoing financial support for a period of at least twelve months from the approval date of the group statement of financial position. It is on this basis that the directors consider that neither the Group nor the company is exposed to a significant liquidity risk. Notes 17 and 18 disclose the maturity of financial liabilities.

18. Financial Instruments and derivatives (continued)

Contractual maturity analysis for financial liabilities, (see note 17 for maturity analysis of borrowings):

	Due or due in less than 1 month	Due between 1-3 months	Due between 3 months-1 year	Due between 1-5 years	Total
2017					
Trade and other payables	1,609	-	-	-	1,609
	<u>1,609</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,609</u>
	Due or due in less than 1 month	Due between 1-3 months	Due between 3 months-1 year	Due between 1-5 years	Total
2016					
Trade and other payables	2,027	-	-	-	2,027
	<u>2,027</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,027</u>

Financial liabilities of the company are all due within less than one month with the exception of the intercompany balances that are due between 1 and 5 years.

Interest rate risk

The Group finances its operations through a mixture of shareholders' funds and borrowings. The group borrows exclusively in Sterling and principally at floating rates of interest and are disclosed at note 17.

Fair value of financial instruments

The fair value of loans and receivables is measured at amortised cost using the effective interest method after consideration to impairment losses. Financial liabilities are measured at amortised cost using the effective interest method. The directors consider that the fair value of financial instruments are not materially different to their carrying values.

Capital risk management

The group's objectives when managing capital are to safeguard the group's ability to continue as a going concern in order to be able to move to a position of providing returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The entity manages trade debtors, trade creditors and borrowings and cash as capital. The entity is meeting its objective for managing capital through continued support from GG Watt as described per Note 1.

19. Share Capital

	2017 No	2017 £'000	2016 No	2016 £'000
Authorised				
Ordinary shares of 1p each	40,000,000	400	40,000,000	400
	<u>40,000,000</u>	<u>400</u>	<u>40,000,000</u>	<u>400</u>
Allotted and fully paid				
Brought forward	33,020,525	330	33,020,525	330
Issued during the year	-	-	-	-
	<u>33,020,525</u>	<u>330</u>	<u>33,020,525</u>	<u>330</u>
Carried forward	33,020,525	330	33,020,525	330
	<u>33,020,525</u>	<u>330</u>	<u>33,020,525</u>	<u>330</u>

19. Share Capital (continued)

Fully paid ordinary shares carry one vote per share and carry a right to dividends.

11,403,703 (2016:14,179,703) share options were outstanding at the year end, comprising the 1m employee options disclosed below and the 10,403,703 share options and warrants held by directors.

3,176,000 options lapsed during the period, No options or warrants were exercised

Share based payments have been included in the financial statements where they are material. No share based payment expense has been recognised.

No deferred tax asset has been recognised in relation to share options due to the uncertainty of future available profits.

Date Options Exercisable	Number of Shares	Exercise Price
Between March 2015 and March 2022	500,000	3.75p
Between July 2016 and July 2023	100,000	3.00p
Between November 2019 and November 2026	400,000	3.875p

The weighted average contractual life of options and warrants outstanding at the year-end is 2.5 years (2016: 1.82 years).

No options were exercised during the period.

20. Financial Commitments

Group	2017 £'000	2016 £'000
Capital commitments		
Capital expenditure commitments contracted for, but not provided in the financial statements were as follows:	-	-
Operating lease commitments		
The future aggregate minimum lease payments under non-cancellable operating leases are as follows:		
Motor vehicles	25	25
Land and buildings		
- within one year	42	42
- one to five years	35	77
	102	144

21. Related Party Transactions

Directors' loan disclosures are given in notes 17 and 18. The interest payable to directors in respect of their loans during the year was:

G G Watt (2017: £131,163)

The directors are considered the key management personnel of the company. Remuneration to directors is disclosed in note 6.

As at 30 June 2017, there was an amount of £nil (2016: £5,082) due from Wessex Precision Instruments, a company that G G Watt is also a Director. The only transaction was that this balance was repaid during the year.

As at 30 June 2017, there was an amount of £4,794 (2016: £39,539) due from Online Engineering Limited, a company that G G Watt is also a Director. The only transaction was that this balance was partly repaid during the year.

21. Related Party Transactions (continued)

Included within the amounts due from and to group undertakings were the following balances:

	2017 £	2016 £
Balance due from:		
Adien Limited	53,770	139,808
QM Systems Limited	291,375	123,375
Balance due to:		
Adien Limited	-	-
QM Systems Limited	1,582,729	1,260,934

These intergroup balances vary through the flow of working capital requirements throughout the group as opposed to intergroup trading.

There is no ultimate controlling party of PipeHawk plc.

22. Subsequent events

On 13 October 2017 the company sold its 28.4 per cent. joint venture interest in the ordinary share capital of SUMO Limited ("SUMO") to Gordon Watt, the Executive Chairman of the Company, for a consideration of £197,499, being the original cost of the investment, subject to shareholder approval ("the SUMO Share Sale"). The consideration will be satisfied in cash. Gordon Watt has agreed to pay the consideration immediately and therefore the payment of £197,499 will be treated as a loan, on identical terms to the existing loans due to Gordon Watt, until such amount becomes payable under the agreement for the SUMO Share Sale.

Gordon Watt has agreed that in the event that SUMO effects a fundraising at a pre-money valuation in excess of £700,000 (equivalent to £2 per SUMO share, the price being paid by Gordon Watt) before 30 June 2018 or SUMO effects a sale of the company or an IPO at a price greater than £2 per SUMO share before 13 October 2020, then further consideration of 50 per cent. of the value of such excess will be payable in cash to the Company by Gordon Watt.

The independent directors, Randal MacDonnell and Soumitra Padmanathan, having consulted with the Company's nominated adviser, Allenby Capital Limited, consider that the terms of the sale of the investment in SUMO and the loan provided by Gordon Watt are fair and reasonable insofar as the shareholders of PipeHawk are concerned.

NOTICE IS HEREBY GIVEN that the annual general meeting (AGM) of PipeHawk plc will be held at the offices of Allenby Capital Limited, 5 St Helen's Place, London, EC3A 6AB at 14:30 on Thursday 14 December 2017 for the purpose of considering and, if thought fit, passing the following resolutions:

Resolutions 1, 2, 3, 4 and 7 will be proposed as **ordinary resolutions** and Resolutions 5 and 6 will be proposed as **special resolutions**:

Ordinary business

1. To receive the accounts for the year ended 30 June 2017 together with the reports of the directors and auditor thereon **(Resolution 1)**
2. To re-appoint Gordon Watt as Director, who retires but, being eligible, offers himself for re-election **(Resolution 2)**
3. To re-appoint Crowe Clark Whitehill LLP as auditor of the Company and to authorise the Directors to set their remuneration. **(Resolution 3)**

To transact any other ordinary business

SPECIAL BUSINESS

4. That, in substitution of any existing authority (passed in 2010) and for the purposes of section 551 of the Companies Act 2006 (the "Act"), the Directors be and are hereby generally and unconditionally authorised to exercise all powers of the Company to allot ordinary shares of 1 penny each in the share capital of the Company ("**Ordinary Shares**") or grant rights to subscribe for or to convert any security into Ordinary Shares ("**Rights**") up to an aggregate nominal value of £394,931 representing authority in respect of:
 - (a) the grant of warrants to subscribe for 9,703,703 Ordinary Shares as referred to in Note 6 of the Annual Report of the Company for the year ended 30 June 2017 ("**Annual Report**");
 - (b) the conversion of Convertible Unsecured Loan Stock (convertible into a maximum of 20,000,000 Ordinary Shares) referred to in Note 17 of the Annual Report;
 - (c) the grant of options to subscribe for 1,700,000 Ordinary Shares, granted under the Company's share option scheme ("**Share Option Scheme**") on or prior to the date of this resolution, as referred to in Notes 6 & 19 of the Annual Report;
 - (d) the allotment of Ordinary Shares or Rights, other than pursuant to paragraphs (a), (b) and (c) above, up to an aggregate nominal amount of 11,557,180 Ordinary Shares (representing approximately 35 per cent. of the issued share capital of the Company at the date of the notice of the meeting in which this resolution appears),

Provided that such authority (unless previously revoked, varied or extended by the Company in general meeting) will expire on the earlier of the fifth anniversary of the date of the passing of the Resolution and the end of the annual general meeting of the Company to be held in 2022, save that the Company may, before such expiry, make an offer or agreement which would, or might, require Ordinary Shares or Rights to be allotted after such expiry and the Directors may allot relevant securities in pursuance of such offer or agreement as if the authority so conferred had not expired. **(Resolution 4)**

5. That, in substitution of any existing authority and subject to the passing of Resolution 5 set out above, the Directors be and are hereby empowered in accordance with section 570 of the Act until the earlier of the fifth anniversary of the date of the passing of this Resolution and the end of the general meeting of the Company to be held in 2022 (the "Period") to allot equity securities (as defined in section 560 of the Act) for cash pursuant to the authority conferred on them by Resolution 5, as if section 561 (1) of the Act did not apply to such allotment, provided that the power conferred by this Resolution shall be limited to:
 - (a) the grant of warrants to subscribe for 9,703,703 Ordinary Shares as referred to in Note 6 of the Annual Report;
 - (b) the conversion of the Convertible Unsecured Loan Stock (convertible into a maximum of 20,000,000 Ordinary Shares) referred to in Note 17 of the Annual Report;
 - (c) the grant of options to subscribe for 1,700,000 Ordinary Shares, granted under the Company's Share Option Scheme on or prior to the date of this resolution, as referred to in Notes 6 & 19 of the Annual Report; and
 - (d) the allotment of equity securities (within the meaning of Section 560 of the Act), other than pursuant to paragraphs (a), (b) and (c) above, up to an aggregate nominal amount of £115,572, save that this power shall allow the Company to make an offer or enter into an agreement before the expiry of the Period which would, or might, require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of any such offer or agreement as if the power conferred hereby had not expired. **(Resolution 5)**

6. That the Articles of Association of the Company (the "**Articles**") be amended by (i) deleting the restriction in relation to the authorised share capital of the Company in Article 3 and (ii) deleting the provision of the Company's Memorandum of Association relating to authorised share capital which, by virtue of Section 28 of the 2006 Act, is to be treated as a provision of the Articles, and that, notwithstanding all other references to the authorised share capital present in the Articles, the Directors be and are hereby authorised to allot equity securities in the capital of the Company (whether pursuant to Resolution 5 and 6 above or otherwise) without reference to any restriction relating to authorised share capital. **(Resolution 6)**

Other business

7. Sale of SUMO

That, the sale by the Company of 98,999 ordinary £1 shares in the issued share capital of SUMO Limited, a company registered in Guernsey with the company number 38834 whose registered office is at 12 Val Fleury, Hauteville, St Peter Port, Guernsey GY1 1DH, for the sum of £197,499 to Gordon Watt being a director and the Chairman of the Company, be and is approved for all purposes including but not limited to s190 Companies Act 2006. **(Resolution 7)**

Serious loss of capital

To consider whether any, and if so what, steps should be taken to address the serious loss of capital within the Company, pursuant to section 656(1) of the Companies Act 2006.

Registered Office
Manor Park Industrial Estate
Wyndham Street
Aldershot
Hampshire
GU12 4NZ

By order of the Board

S P Padmanathan
Secretary

Dated: 30 October 2017

Notes:

1. A member of the Company entitled to attend and vote at the AGM may appoint one or more proxies to attend and, on a poll, vote on his/her behalf. A form of proxy for the use of members who are unable to attend the AGM in person is enclosed. A proxy need not be a member of the Company. This instrument appointing a proxy and the power of attorney (if any) under which it is signed, or a notarially certified copy of that power, must be deposited with the Company's Registrars, SLC Registrars, Ashley Park House, 42-50 Hersham Road, Walton-on-Thames, Surrey KT12 1RZ not less than 48 hours before the time of the General Meeting.
2. The completion of a proxy does not preclude a member from attending the AGM and voting in person.
3. As permitted by Regulation 41 of the Uncertified Securities Regulations 2001, only those shareholders who are registered on the Company's Register of Members at 18:30 on 12 December 2017 shall be entitled to attend the Annual General Meeting and to vote in respect of the number of ordinary shares in their names at that time. Changes to entries on the register of members after 18:30 on 12 December 2017 shall be disregarded in determining the rights of any person to attend/or vote at the AGM.
4. Copies of all the Directors' service contracts are available for inspection at the Company's registered office during normal business hours on business days from the date of this notice until the close of the AGM and will be available for inspection at the place of the AGM for 15 minutes before the AGM and during the AGM.



PipeHawk plc

Manor Park Industrial Estate
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